



To: K12 Advisory Committee

From: Mark Fermanich, Larry Picus and Allan Odden

Date: March 23, 2006

Re: Special Education Funding Formula

The purpose of this memo is to provide a brief overview of the current funding structure for special education, the issues surrounding the current structure, and our suggestions for moving forward in terms of the finance study.

Special Education Funding Overview

In the 2004-05 school year Washington's school districts served more than 124,000 students with disabilities, ages 3 to 21, through their special education programs. This represents approximately 12.2 percent of the state's total enrollment. State and federal General Fund spending for these programs totaled \$793 million, or about 10 percent of all General Fund K-12 expenditures. State sources provided about 58 percent of the revenues for special education programs, federal sources about 25 percent, and the remaining revenues came from various sources.

Current Funding Formula

Washington's formula for funding special education is driven by the number of students with disabilities and the per student amount of the basic education allocation. A district's special education revenue is calculated as follows:

$$\begin{array}{r} \text{The headcount of eligible students, ages birth to 21} \\ \times \\ \text{The basic education allocation per student times .9309} \end{array}$$

Two important adjustments are made to this basic calculation. First, a district's portion of the headcount for students age 3 to 21 is limited to a maximum of 12.7 percent of the district's total resident FTE enrollment. Districts with a special education headcount greater than 12.7 percent do not receive funding for the students exceeding this limit. Second, the per student basic education allocation used in the formula excludes the

amounts generated by the enhancements for lowering K-4 staffing ratios, vocational education and small schools.

While the special education allowance varies from district to district, the statewide average for 2004-05 was approximately \$3,673 per eligible student (JLARC report).

Districts also receive additional special education revenues for providing tutors for students in home or hospital care or for students requiring very expensive services. The costs of home/hospital tutoring may be reimbursed at a rate of up to \$60 per student per week. The state's "safety net" allocation for high cost students is described below.

A district may apply to the state for additional funding to help pay for the costs of very expensive students. In 2004-05, a district could apply for assistance under the safety net program for individual students whose costs exceeded between \$14,000 and \$18,000 depending on the district. The threshold amount for 2005-06 is \$14,902. Districts apply to the special education State Oversight Committee made up of representatives of OSPI, the State Auditor's Office, local school districts, and education service districts. On average, between 1-1.5 percent of special education students meet the cost criteria for the safety net program.

Additional funding is approved only if certain requirements have been met. In 2004-05, federal funds were used to pay for all safety net allocations. For 2005-06, individual student costs of between \$14,902 and \$21,288 are paid from state funds, while costs exceeding \$21,288 are paid using federal special education funds.

Issues

Concerns have been raised that the current special education formula does not provide enough money to cover the excess costs of the services required for students with disabilities. In particular, the safety net provision has been criticized for failing to provide districts with enough additional funding for high cost students. Districts argue that they are increasingly diverting local levy revenues to pay for these costs. In 2004, a coalition of 11 school districts filed suit against the state for under funding special education programs.

Alternatives

In our *Washington Learns: Briefing Document on an Evidence-Based Approach to School Finance Adequacy*¹ we suggested two possible alternatives for funding special education programs. The first was to retain the current funding formula largely intact, making adjustments as necessary for integrating the formula with the evidence-based

¹ Odden, A., Picus, L. O., & Goetz, M. (2006, January). *Washington Learns: Briefing document on an evidence-based approach to school finance adequacy*. Report prepared for Washington Learns. North Hollywood, CA: Lawrence O. Picus and Associates.

model. The second was to adopt an alternative model known as the “census approach”. This approach assumes that the distribution of students with different categories of disabilities is more or less evenly distributed across districts and schools. Resources for services for students with high incidence and low cost disabilities are provided at an equal rate for all schools and districts. In our version of this approach, we provide resources in the form of additional teachers for the prototypical schools. Low incidence, high cost students are fully funded by the state. The advantages of the census approach include:

- Eliminating incentives for over identifying students in certain disability categories, such as learning disabilities, or students who are poor, minority or have limited English proficiency.
- Fully funding of the costs of severely disabled students.
- Reducing the burden of paper work.
- Tying future increases in special education funding to enrollment levels.

Recommendation

We recommend that the state retain the current special education funding structure. First, the current formula is not a significant departure from the census approach discussed above. Further, the formula was developed with the requirements of the Doran court decisions in mind and making significant changes now could further cloud the legal environment. The issues with the current formula appear to be less a result of its structure and more of the relatively low Basic Education Allowance that drives its funding level. We believe that replacing the current BEA with the higher funding allowances generated through the evidence-based prototypical schools will provide significant improvement in funding for special education services.

We were also concerned that the state did not have adequate program data for successfully implementing the census approach. After consultations with OSPI staff, it appears that the state’s child count data may not be detailed enough to permit the state to reliably distinguish between students with mild or moderate disabilities who would be funded through the census portion of the formula, and high cost students with more severe disabilities who would be fully funded by the state. There were further concerns that full state funding of high cost students could potentially provide disincentives for districts to control certain costs without close monitoring of the Individualized Education Plans of these students.

We also suggest that the state continue to work toward improving the financial reporting of special education program expenditures. Under the current excess cost accounting method it is very difficult to determine how much is spent for special education programs from the districts’ annual financial reports because the costs allocated to the basic education program account are indistinguishable from other basic education spending. Further, while the state requires a specific method for apportioning the salaries of special education teachers between the regular and special education programs (the 1077 Worksheet), districts use varying methods for apportioning other

costs, such as for purchased services or instructional materials. The OSPI should continue to work toward improving the financial accounting of special education program expenditures so that data on total expenditures are consistent and readily accessible. The Joint Legislative Audit and Review Committee has suggested several alternatives in its February 2006 report² and funding has been provided to the OSPI to develop recommendations for the Legislature prior to next year's legislative session.

Lacking the capacity to account for total school district spending for special education programs limits the state's ability to adequately monitor and analyze district spending levels and the extent to which the special education funding formula is adequate for meeting the costs of these programs. This is particularly true with regard to the safety net program.

² Joint Legislative Audit and Review Committee (2006, February). *Special Education Excess Cost Accounting and Reporting Requirements* (Report 06-3). Olympia, WA: Author.